F E A T U R E

Are Competitors' Free Trade Agreements Putting U.S. Agricultural Exporters at a Disadvantage?

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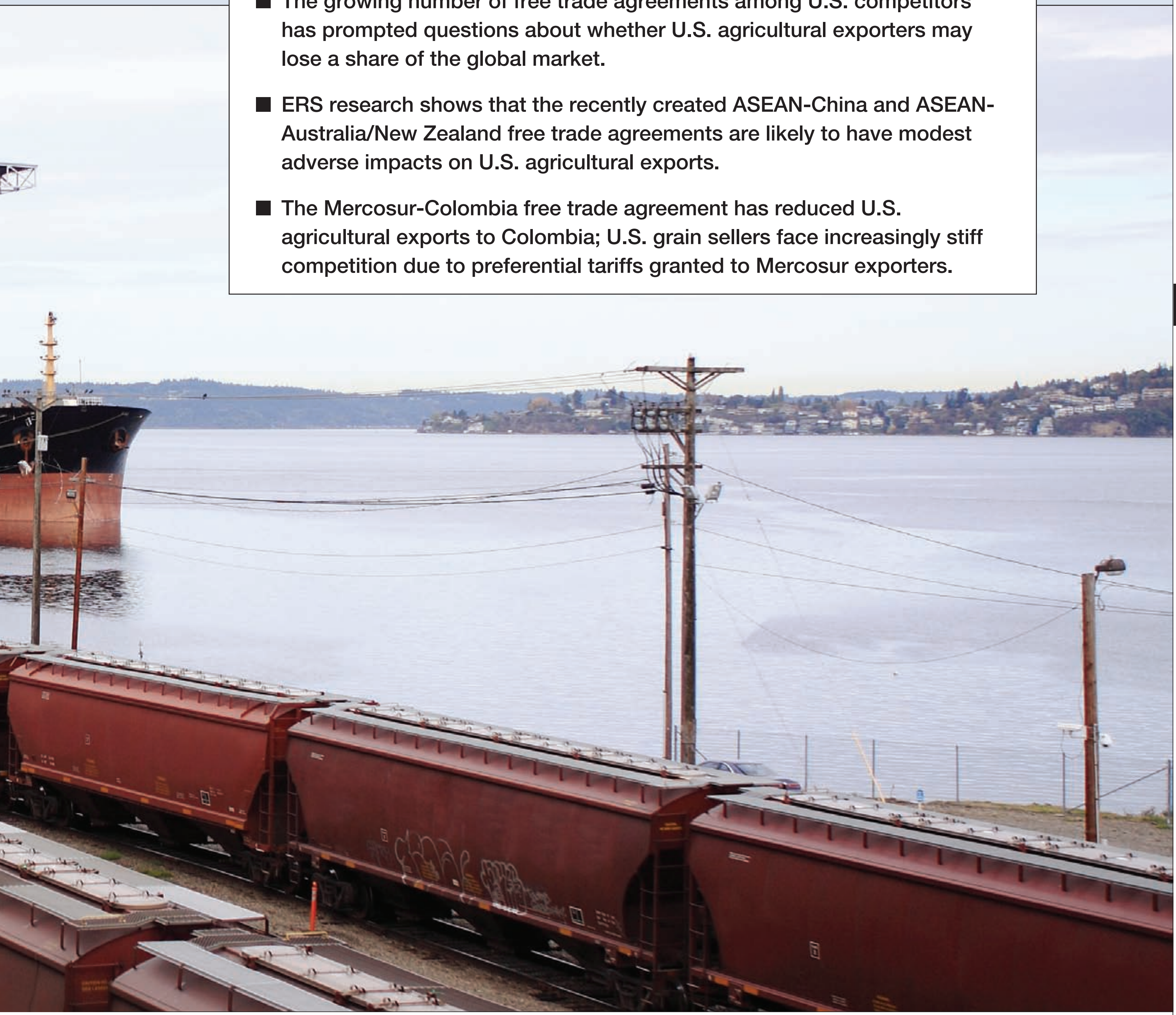
- The growing number of free trade agreements among U.S. competitors has prompted questions about whether U.S. agricultural exporters may lose a share of the global market.
- ERS research shows that the recently created ASEAN-China and ASEAN-Australia/New Zealand free trade agreements are likely to have modest adverse impacts on U.S. agricultural exports.
- The Mercosur-Colombia free trade agreement has reduced U.S. agricultural exports to Colombia; U.S. grain sellers face increasingly stiff competition due to preferential tariffs granted to Mercosur exporters.



The proliferation of bilateral and regional free trade agreements (FTAs) over the past decade has become an important policy feature of the global trading system. These agreements create additional trade between members as their consumers respond to the availability of lower priced imports. At the same time, FTAs can divert trade from more efficient nonmember suppliers to member exporters receiving preferential treatment.

When countries mutually agree to reduce trade barriers within an FTA, suppliers in other countries continue to face unchanged (higher) tariffs when exporting to the FTA countries. Whether the differential tariff markups adversely affect the competitiveness of nonmember exporters depends upon the level of discrimination and the market shares of the supplying countries.

A recent ERS study using bilateral trade flows from 1975 to 2005 among 69 countries provides empirical evidence that FTAs increased trade among member countries in the world agricultural marketplace. The study shows, however, that trade expansion often is accompanied by trade contraction with nonmember countries. This suggests the large number of FTAs that do not include the United States may be eroding the U.S. presence in foreign markets.

Another ERS study focused more narrowly on specific FTAs and how they may change the pattern of U.S. agricultural exports. ERS researchers contrasted the effects of two recent FTAs negotiated by the Association of Southeast Asian Nations (ASEAN—Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Laos, Burma (Myanmar), and Cambodia) with an agreement recently negotiated between the Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) and Colombia. According to the study, the two ASEAN agreements are projected to have only modest impacts on U.S. exports, while the Mercosur agreement has the potential to impose much larger costs on U.S. trade.

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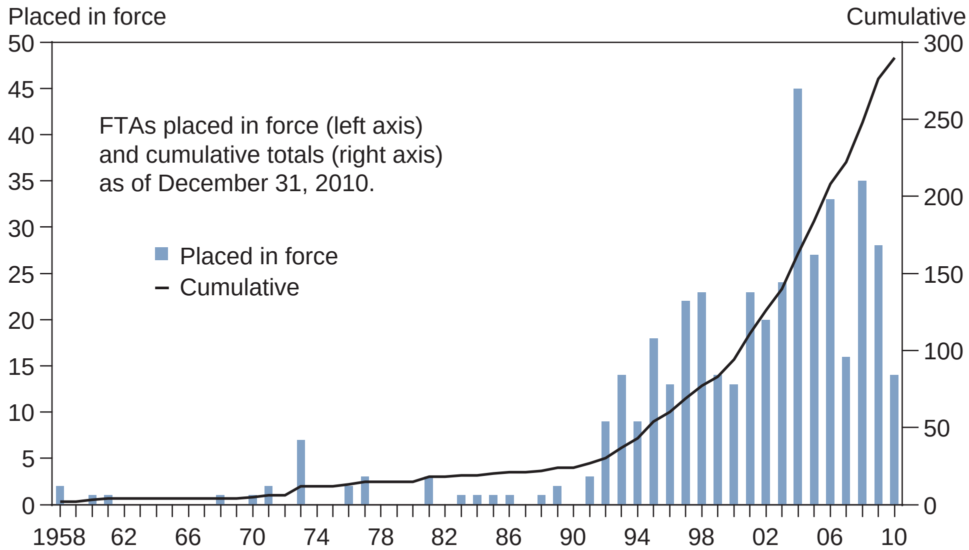
Free trade agreements continue to proliferate and grow more important



Source: USDA, Economic Research Service using data in the World Trade Organization Regional Trade Agreements database (http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx).

Growth in FTAs Has Been Impressive and Steady

According to the World Trade Organization (WTO), as of December 1, 2010, there were 290 FTAs in force (of these, 207 covered goods, and 83 covered services). More than two-thirds were put in place within the past decade. This trend is likely to continue based on the number of additional negotiations underway or being proposed.

Almost all countries are now party to at least one FTA. The U.S., once in the vanguard of countries creating FTAs, has negotiated fewer agreements in recent years. Between 2003 and 2007, the U.S. concluded negotiations with 16 countries, resulting in 8 FTAs with 13 countries—Singapore, Chile, Australia, Morocco, El Salvador, Honduras, Nicaragua, Guatemala, Bahrain, Dominican Republic, Costa Rica, Oman, and Peru. Three additional trade agreements with South Korea, Colombia, and Panama have been signed but have yet to be ratified by the U.S. Congress. Before a trade agreement can take effect, Congress must approve the implementing legislation submitted by the President.

The share of world trade between FTA partners has steadily increased. In 2009, an estimated 45 percent of global nonagricultural trade and 54 percent of agricultural trade was between FTA partners. The U.S. trades less with FTA partners than the rest of the world does—33 percent of U.S. nonagricultural trade and 41 percent of agricultural trade occurred with FTA partners in 2009. Important agricultural exporters, such as the European Union and Canada, have been particularly active in negotiating FTAs.

The primary objective in negotiating FTAs is to achieve preferential access to a partner's market, thereby securing a competitive edge over other exporters and leveling the playing field against the FTA partner's producers. Noneconomic factors also induce countries to form FTAs. Geopolitical factors, for example, have an effect, with some FTAs considered an important force for stability and development in a region. The uncertainties associated with getting a successful conclusion to the WTO multilateral negotiations may have also been a contributing force in the growth of FTAs. No doubt there has been a "domino effect" in recent years, with countries drawn into FTAs as a means to maintain market access in their partners' markets.

Share of trade between free trade agreement partners is higher for the rest of the world than for the U.S.

Country	Type of trade	Amount	Trade in 2009		
			To FTA partners	To all others	Total
United States	Non-agricultural trade	*Mil. $*	840,716	1,697,713	2,538,429
		Percent	33	67	
	Agricultural trade	*Mil. $*	74,567	105,478	180,045
		Percent	41	59	
Rest of world	Non-agricultural trade	*Mil. $*	9,259,068	10,500,343	19,759,411
		Percent	47	53	
	Agricultural trade	*Mil. $*	858,070	684,057	1,542,127
		Percent	56	44	
Total	Non-agricultural trade	*Mil. $*	10,099,784	12,198,056	22,297,840
		Percent	45	55	
	Agricultural trade	*Mil. $*	932,637	789,535	1,722,172
		Percent	54	46	

Source: USDA, Economic Research Service using 2009 data from the United Nations' COMTRADE database.

Most U.S. Trade Not Affected by ASEAN FTAs

The Association of Southeast Asian Nations recently implemented a trade agreement with China and another with Australia and New Zealand. These agreements are illustrative of the potential effects on U.S. agriculture of FTAs from agreements that exclude the United States. The ASEAN countries, as well as China, Australia, and New Zealand, are important destinations for U.S. agricultural exports. These countries are both customers and competitors for U.S. agriculture (see box, "Structure of U.S. Agricultural Trade With ASEAN FTA Partners and Colombia").

The ASEAN-China free trade area took full effect on January 1, 2010. The agreement removes tariffs on about 90 percent of goods traded between China and the six founding members of ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand). Cambodia, Laos, Burma, and Vietnam are scheduled to remove tariffs by 2015. Tariffs for "sensitive products," such as poultry in the Philippines, pork in Thailand, and tobacco in China and Indonesia, are to be phased out by 2018. Tariffs on "highly sensitive products," including rice in almost all of the ASEAN countries plus China, and corn in China, Indonesia, the Philippines, and Thailand, are not exempt from tariff cuts but will only be reduced, not phased out.

Australia and New Zealand began jointly negotiating a free trade agreement

Structure of U.S. Agricultural Trade With ASEAN FTA Partners and Colombia

U.S. agricultural exports to the partners in the new ASEAN-related FTAs were about $20 billion in 2009, about 20 percent of total U.S. agricultural exports. Of this, almost half were soybeans, $9 billion worth to China alone. Cotton and oilseed products represented another 12 percent of the total. Altogether, oilseeds and oilseed products and cotton constituted over 60 percent of total U.S. agricultural exports to the three regions.

- ASEAN is a net agricultural exporting region, but its agricultural imports are large and growing. ASEAN is also a net agricultural exporter to the United States, with U.S. imports from ASEAN exceeding exports by over $1 billion per year in 2005-08. ASEAN exports to the world (and to the United States) span a wide range of products, including rubber; palm and coconut oil; rice; cocoa; pineapple, banana, and other fruit; coffee; cashew and other nuts; and spices. In most cases, these products do not compete with U.S. agricultural products; rice and vegetable oils are the chief exceptions. ASEAN imports large amounts of wheat, corn, soybeans, soymeal, dairy products, fruit, and processed agricultural products from the United States.

- China is a net agricultural importer. Agricultural imports totaled about $45 billion in 2009 and exports about $25 billion. Processed vegetables and fruits and other processed food products dominate China's exports, which are often relatively labor-intensive products. Exports to the United States include processed vegetables (such as mushrooms, water chestnuts, garlic, and soy products); processed fruit (led by tangerines); apple juice; pet food; and sausage casings. U.S. exports to China considerably exceed imports from China: $13 billion versus $3 billion in 2009. At over $9 billion, U.S. soybean exports dominate this trade. Cotton, chicken parts, and distillers' dried grains are among the other large U.S. exports.

- Australia and New Zealand (Oceania) are large net exporters, together exporting $33 billion in agricultural products in 2009, while importing $9 billion. Australia exports wheat, barley, cotton, and other crops. Both countries export large amounts of pasture-based animal products: beef, lamb, and mutton; dairy products; and wool. Wine exports are also important. U.S. imports from Oceania (beef, lamb, dairy products, and wine), at $2.5 billion, are larger than U.S. exports ($1.1 billion in 2009), which are led by pork, pet food, grapes, and citrus fruit.

- Colombia's net agricultural exports exceeded $2 billion in each of the last 5 years. It exported $5.7 billion and imported $3.3 billion of agricultural products in 2009. Leading exports were coffee, cut flowers, bananas, sugar, beef, and processed products. Leading imports were grains, soybeans and soy products, processed foods, fruit, and beverages. The United States was Colombia's largest source of agricultural imports (shipping $907 million in 2009) and largest destination for agricultural exports (receiving $1.058 billion in 2009). U.S. exports were dominated by grains, soybeans and soy meal, and cotton. U.S. imports were led by coffee and coffee products, cut flowers, bananas, and processed products.

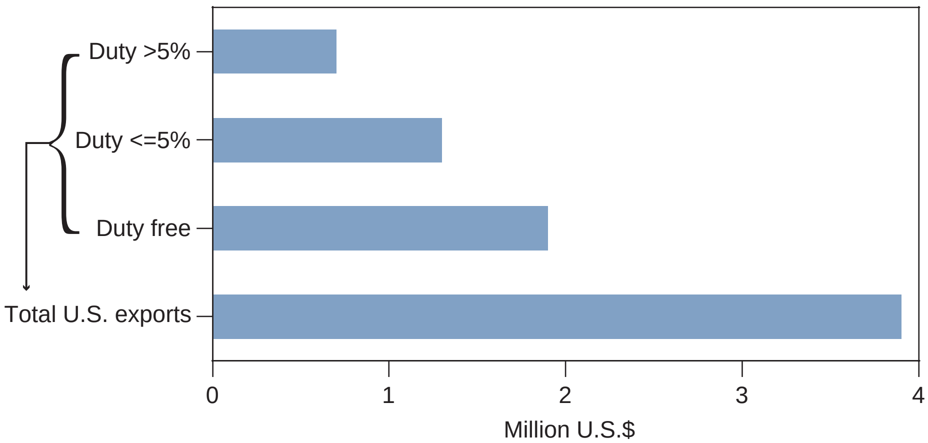
(AANZFTA) with the ASEAN countries in 2004. The agreement was signed in 2009 and became effective in April 2010. Australia and New Zealand will benefit from the eventual elimination of tariffs on 99 percent of their exports to the ASEAN countries. A proportion of tariffs will be eliminated immediately, and most of the remaining tariffs will reach zero at various stages between 2011 and 2020. A few tariffs will not reach zero until 2025. About 5 percent of the ASEAN countries' tariffs will not be cut to zero, including those for rice in Indonesia, Malaysia, the Philippines, and Thailand, and alcoholic beverages in Indonesia, Malaysia, and Vietnam.

U.S. Exports Face Varying Degrees of Competition Within the Two ASEAN-FTA Markets

One way to look at implications for the United States is to consider how the agreements could affect current U.S. exports to the countries signing the agreements. Virtually all U.S. exports to ASEAN countries now face some competition from China, Australia, and New Zealand. Similarly, most U.S. exports to Australia and New Zealand (Oceania) confront competition from ASEAN. However, only a subset of U.S. exports to China faces competition from ASEAN, mitigating the likely adverse impact of the ASEAN-China FTA on U.S. agricultural exports.

The new FTAs are projected to have only modest adverse impacts on U.S. exports because tariffs in this region are already low. The United States has a bilateral trade agreement with Australia, for example, which eliminated tariffs on U.S. products. With the new ASEAN agreement, however, U.S. exporters will lose their special advantage, as Southeast Asian products also gain duty-free access. However, Australia's tariffs

Most U.S. exports to ASEAN countries entered duty free or were assessed duties of less than 5 percent during 2005-09



Note: ASEAN data include only Indonesia, Philippines, Thailand, and Malaysia.
Sources: USDA, Economic Research Service using trade data in the Global Trade Atlas and tariff data in ERS databases.

on agricultural products are typically low. Indonesia's tariffs on products that the U.S. currently exports are mostly zero, and few exceed 5 percent.

In the Australia and Indonesia markets, the new ASEAN FTAs will have small effects on tariffs. Most of the other countries also impose low tariffs—zero or under 5 percent—on most products traded with the U.S. Only Thailand imposes duties over 5 percent on a significant portion of the products where U.S. exports are competitive.

U.S. agricultural exports to seven of these countries (four major ASEAN countries, China, Australia, and New Zealand) averaged $15 billion during 2005-09. Of that, $7 billion did not compete with the new FTA partners and another $2.6 billion entered duty free, leaving just over $5 billion of dutiable exports. U.S. exports in this $5 billion group are potentially at risk from the ASEAN FTAs.

U.S. Exports of Fruit and Processed Products Most Affected by ASEAN FTAs

ERS researchers found that the new ASEAN FTAs are most likely to affect U.S. exports of processed agricultural products, especially in the subcategory labeled in the trade data as "food preparations: composite mixtures"—a diverse category of products such as beverage bases, some snack foods, some fruit juice preparations, coffee whiteners, herbal tea mixes, and some gelatin preparations.

U.S. processed food exports to the ASEAN nations are projected to decline by $123 million per year after FTA tariff reductions. The U.S. faces strong competition for exports of processed products to ASEAN countries from food industries in China and Oceania. Tariffs also tend to be higher because many countries try to protect their food manufacturing industries. U.S. processed food exports to China and Oceania will fall by smaller amounts, in part because U.S.-ASEAN competition in those export markets is not intense.

U.S. exports of fruit and vegetables to ASEAN members and to China are projected to fall by over $50 million per year and by about $30 million per year, respectively. U.S. fresh and processed fruit exports, in particular, face considerable competition in the region. U.S exports of dairy and poultry products to ASEAN, especially to the Philippines, are projected to decline

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an estimated $43 million per year, while wheat exports to ASEAN could drop by about 6 percent, or $40 million annually.

Total U.S. agricultural exports to ASEAN members are projected to fall by almost $350 million, or 5 to 6 percent of actual 2009 exports to the region. However, despite some lost trade to China, particularly in processed products, total U.S. agricultural exports to China are expected to rise by over $16 million per year after full implementation of the ASEAN FTA, and U.S. agricultural exports to Oceania will be virtually unchanged. Declining exports in some commodity/product markets in China and Oceania are balanced by gains in other markets. As China, Australia, and New Zealand increase exports to ASEAN countries, they import more commodity inputs from the United States. For example, China is projected to increase imports of U.S. soybeans and cotton to meet new demands in ASEAN for its livestock products and textiles.

U.S. agricultural exports to the rest of the world are projected to rise in the aftermath of the ASEAN FTAs. U.S. products shift from the new FTA zones to other parts of the world, and some products that the ASEAN FTA trade partners formerly shipped to third-country destinations are exported to ASEAN instead, leaving a gap for U.S. trade to fill.

Globally, U.S. agricultural exports are projected to decline by $170 million after implementation of the ASEAN FTAs. Since the countries involved account for one-fifth of U.S. agricultural exports ($20 billion), the impact is small relative to the size of these FTA markets—smaller still in relation to total U.S. exports. The strong competitive position of the United States and relatively low tariffs facing U.S. exports in the two ASEAN FTAs reduce the adverse impact of these agreements on U.S. agricultural sales in the world marketplace.

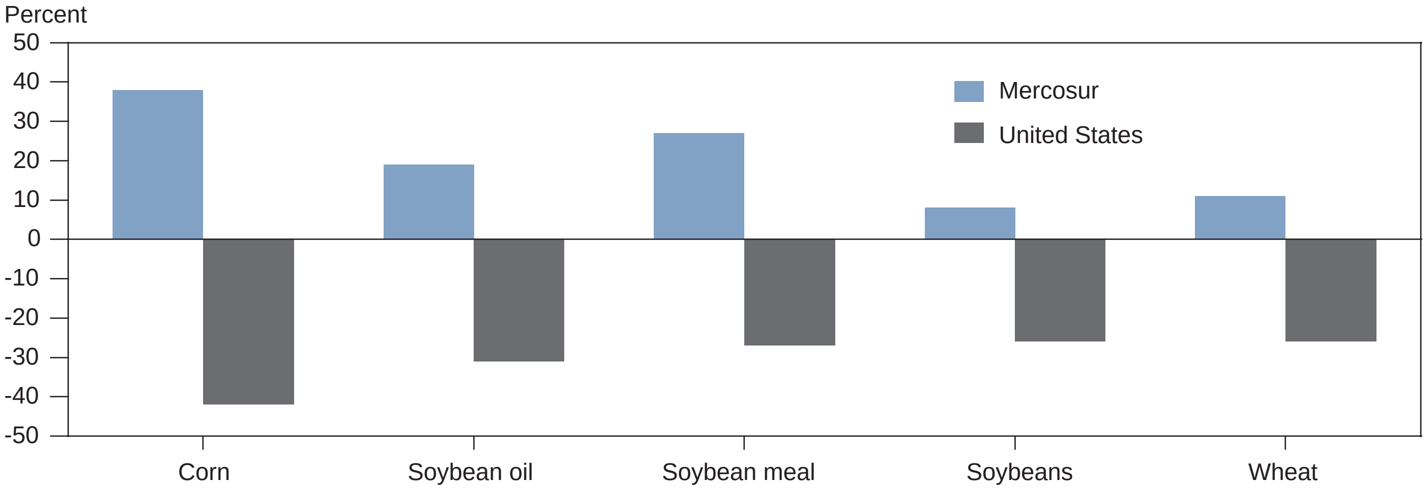
Colombia's FTAs With Competitors Put Pressure on U.S. Exports

The impact on U.S. agricultural exports from Colombia's FTA with the Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) has been different from the outcomes expected from the ASEAN FTAs. Colombia is the largest South American market for U.S. agricultural exports; in 2009, exports were $907 million, consisting largely of wheat, corn, soybeans, and soybean products.

The Mercosur countries produce grain and soybeans. As part of the Mercosur-Colombia FTA, Colombia's tariffs on wheat imports from Mercosur ended in 2009, and corn tariffs are being phased out. However, tariffs remain on imports from the United States. The margin of preference is measured as the difference between the tariff that U.S. exports face and the tariff the FTA partners' exports face. These preferences appear to have appreciably reduced U.S. shares in these commodity markets in 2009 and 2010, when Mercosur wheat had a 15-percent margin of preference over U.S. exports and corn had a margin of preference between 8.1 and 6.9 percent.

Although Colombian wheat and corn imports from the world market were lower in 2009 than in 2008, imports from the U.S. fell even more disproportionately. U.S. exports of wheat to Columbia dropped by $225 million over the period, while U.S. corn exports dropped by almost $500 million. The United States lost market share to Mercosur countries in corn and to Argentina and Canada in wheat. Argentina, Brazil, and Paraguay increased their exports of corn to Colombia by $203 million, while Argentina and Canada

Market shares of U.S. and Mercosur[1] countries' in Colombia changed dramatically between 2008 and 2009



[1]The Mercosur countries are Argentina, Brazil, Paraguay, and Uruguay.
Sources: USDA, Economic Research Service using trade data in the Global Trade Atlas.

increased their exports of wheat by $36 million. U.S. losses in just these two commodites in the Colombian market due to the Mercosur-Colombia FTA exceed the total projected decline of U.S. agricultural exports ($347 million) to the much larger ASEAN market as a result of the two recently implemented ASEAN FTAs.

More U.S. exports may be in jeopardy if an FTA between Canada and Colombia is implemented. Canada, a major wheat supplier to Colombia, negotiated a free trade agreement with Colombia in 2008 and ratified it in 2010. If Colombia also ratifies the agreement, the import duties on Canadian wheat will be immediately reduced to zero.

Third-Party FTAs Hit Hardest When U.S. Exports Face High Tariffs and Strong Competition

Colombia's FTA with Mercosur appears to be an example of appreciable damage to U.S. bilateral exports from an FTA between countries other than the U.S. The $305 million loss of U.S. exports of corn and wheat alone is equivalent to about a fourth of U.S. agricultural exports to Colombia—a far deeper cut than the 6-percent loss projected following implementation of the two ASEAN FTAs.

The difference between the two cases is that Colombia has imposed higher tariffs on the principal U.S. exports than is the case for most U.S. exports to ASEAN countries. U.S. commodity exporters face competition from Mercosur exporters who are exempt from these tariffs because of the Mercosur-Colombia FTA.

The effect on U.S. agricultural exports of FTAs in which the United States is not a partner will vary depending on the thoroughness of the cuts in tariffs in the FTAs, how high the Most Favored Nation tariffs were to begin with, and the degree to which partners in those FTAs can supply products that the United States exports. The U.S. advantages as a large, low-cost, and reliable exporter are not automatically canceled by third-party FTAs. However, third-party FTAs always give their members a margin of tariff preference over the United States, which in some cases can lead to serious declines in U.S. agricultural exports. W

This article is drawn from . . .

Selected Trade Agreements and Implications for U.S. Agriculture, by John Wainio, Mark Gehlhar, and John Dyck, ERR-115, USDA, Economic Research Service, April 2011, available at: www.ers.usda.gov/publications/err115/

Reciprocal Trade Agreements: Impacts on Bilateral Trade Expansion and Contraction in the World Agricultural Marketplace, by Thomas L. Vollrath and Charles B. Hallahan, ERR-113, USDA, Economic Research Service, April 2011, available at: www.ers.usda.gov/publications/err113/